The Medicare "45 Percent Trigger":
An Ideologically-Driven and Flawed View of Medicare's Financial Health
April 27, 2007

A provision slipped into the Medicare Modernization Act (MMA) at the last minute creates a new "measure" of Medicare's financial health. However, rather than being a meaningful measure of Medicare's fiscal status, the trigger is designed to set off a false alarm and advance the Republican agenda to dismantle Medicare.

Medicare's Financing. Current law establishes three main sources of financing for Medicare: payroll taxes, general revenues, and beneficiary premiums. Medicare Part A (inpatient hospital and post-acute care) is financed by payroll taxes. Part B (physician and outpatient services) and Part D (the Medicare drug benefit) are both financed by a combination of general revenues and beneficiary premiums. State contributions also help to fund Part D. Part C, otherwise known as Medicare Advantage, covers payments to HMOs and other private plans. Funding is drawn from both Parts A and B, so plan overpayments erode solvency and raise premiums for all beneficiaries.

Calculating the 45 Percent Threshold. The MMA requires the Medicare Trustees to estimate in their annual report how much of Medicare will be financed with general revenues in the current and subsequent six years. General revenues are calculated by subtracting "dedicated financing sources" (defined as payroll taxes, beneficiary premiums, income from taxation of Social Security benefits, and state transfers for the drug benefit) from overall Medicare spending. If general revenues are projected to exceed 45 percent of overall program spending in the seven-year window -- and this finding occurs in two consecutive Trustees reports -- then a "Medicare Funding Warning" is issued.

Medicare Funding Warning Triggers Presidential Proposals. Once a "Medicare Funding Warning" is issued, the President must propose legislation in his next budget to move general revenues back under the threshold. In order to meet that goal, legislation would need to cut benefits and provider payments financed by general revenues (Parts B and D), shift more of the burden to beneficiaries in the form of higher cost-sharing, or rely more heavily on payroll taxes. Congress must then consider the President's proposals under an expedited timetable.

The 2006 and 2007 Trustees Reports. Both the 2006 and 2007 Trustees reports projected that general revenues would exceed 45 percent within their respective seven-year windows, so a Medicare Funding Warning has been issued and the President must propose legislation 15 days after his budget is submitted to Congress in February 2008.

"45 Percent Trigger" is Arbitrary Measure. Medicare was created because the private markets would not meet the need, and the nation viewed health care for seniors as a priority that benefits beneficiaries and their families alike. The program was designed to be substantially financed by general revenues rather than payroll taxes. The fact that a sizeable portion of Medicare's financing comes from general revenues is no more problematic than the fact that 100 percent of the defense budget comes from general revenues. And no explanation has ever been provided as to why 45 percent is the "right" amount of general revenue financing for Medicare.

Trigger Limits Options and Reveals Republicans' Ideological Preference to Dismantle Medicare. Regardless of the measure used to examine Medicare's financial health, whenever solvency has fluctuated in years past, the Congress always took the necessary steps to strengthen the program. The trigger reveals the Republican ideological preference to end Medicare as we know it by limiting general revenue financing. General revenues are just as appropriate a source of financing for Medicare as for the Department of Defense. *Sincere efforts to strengthen Medicare's long-term financial outlook must rely on a multi-pronged approach, and increased resources need to be considered as one part of the solution.*

President's Budget Reveals True Agenda: Cut Funds for Medicare. In anticipation of the trigger being pulled this year, the President's budget for fiscal year 2008 proposes automatic annual cuts to provider payments until general revenues get back under the threshold. This proposal reveals the true agenda behind the trigger – to drain Medicare of resources and shrink the program.